

HOUSE BILL REPORT

HB 1981

As Reported by House Committee On:
Finance

Title: An act relating to excise taxation of electronically delivered financial information.

Brief Description: Concerning the excise taxation of electronically delivered financial information.

Sponsors: Representatives Hunter, Conway, Orcutt, Anderson, Santos, Kessler, Jarrett, Condotta and McIntire.

Brief History:

Committee Activity:

Finance: 2/16/07, 3/1/07 [DPS].

Brief Summary of Substitute Bill

- Provides a sales and use tax exemption for electronically delivered financial information.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Hunter, Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire, Roach and Santos.

Minority Report: Do not pass. Signed by 1 member: Representative Hasegawa, Vice Chair.

Staff: Jeff Mitchell (786-7139).

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. Use taxes apply to the value of most tangible personal property and some services when used in this state if retail sales taxes were not collected when the property or services were acquired by the user. Use tax rates are the same as retail sales tax rates. The state tax

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rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.4 percent, depending on the location. The average local tax rate is 2.0 percent, for an average combined state and local tax rate of 8.5 percent.

The definition of tangible personal property includes electricity and prewritten computer software. Electronically delivered digital goods, such as music, video, and standard data files, are also considered tangible personal property and are subject to retail sales or use tax.

Retail sales and use taxation of software and electronically delivered information depends upon whether the subject of the sale is primarily a service or a product. For example, charges for custom program development or custom information development for a specific user are considered a service and not subject to retail sales tax. The sale of standard information or prewritten computer software, not created for a single person, are treated as retail sales.

Manufacturing embraces all activities of a commercial nature that apply labor, skill, or materials, or any combination of these, to create a new product. However, the production of computer software is excluded from the definition of manufacturing if the software is delivered electronically.

Summary of Substitute Bill:

Electronically delivered standard financial information is exempted from retail sales and use taxes. Standard financial information is financial data or facts not generated for a specific customer. Examples include financial market data, bond ratings, credit ratings, and deposit reports, loan reports, or mortgage reports.

The exclusion of electronically delivered computer software from the definition of manufacturing is expanded to include all types of electronically delivered digital goods.

Substitute Bill Compared to Original Bill:

The substitute bill: restricts the sales and use tax exemption to purchases by investment management companies and financial institutions; provides additional definitions; and eliminates section 3 of the original bill that addresses the manufacture of electronically delivered goods.

Appropriation: None.

Fiscal Note: Available. New fiscal note on substitute bill requested on March 2, 2007.

Effective Date of Substitute Bill: The bill takes effect on August 1, 2007.

Staff Summary of Public Testimony:

(In support) This bill represents a culmination of two years of discussion with the Department of Revenue. Our business model and operations are highly dependent on being able to access

large caches of data on a real time basis. The access to financial information is critical because of the level of competition in the global market. Financial information is now exchanged via electronic means, and is available through traditional sources and the world wide web. This access to information has improved our business operations and recommendations.

(Information only) We are okay with this bill at this point.

Persons Testifying: (In support) Fred Kiga, James Patrick Clarkson, and Brian Tipple, Russel Advertisement Group.

(Information only) Gil Brewer, Department of Revenue.

Persons Signed In To Testify But Not Testifying: None.